

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LAKEWOOD WASTEWATER AUTHORITY	County IONIA
Audit Date 12-31-2005	Opinion Date JANUARY 20, 2006	Date Accountant Report Submitted to State FEBRUARY 16, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Karl L. Drake, CPA			
Street Address 3775 Kimmel Road	City Horton	State MI	Zip 49246
Accountant Signature 			

LAKEWOOD WASTEWATER AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2005

LAKEWOOD WASTEWATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lakewood Wastewater Authority
Lake Odessa, Michigan 48849

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund, of Lakewood Wastewater Authority, as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lakewood Wastewater Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of Lakewood Wastewater Authority as of December 31, 2005, and the respective changes in financial position, thereof, for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006, on our consideration of Lakewood Wastewater Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Board of Directors
Lakewood Wastewater Authority

The administration's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 25-27 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakewood Wastewater Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "Karl L. Drake". The signature is fluid and cursive, with the first name "Karl" being more prominent than the last name "Drake".

Karl L. Drake, P.C.
Certified Public Accountant

January 20, 2006

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

This section of Lakewood Wastewater Authority's annual financial report presents discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2005. It is best read in conjunction with the Authority's financial statements that follow this section.

Overview

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Lakewood Wastewater Authority financially and the two types of statements present different views of the Authority. The government-wide statements reflect information about the activities of the entire Authority, presenting an aggregate view and a longer-term view of the Authority's overall financial status. The fund financial statements focus on individual components of Authority government, reporting the Authority's operations in more detail and demonstrating how services were financed in the short term.

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets - the difference between assets and liabilities- as one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the Authority's customer base and the condition of the Authority's system.

The government-wide financial statements of the Authority are divided into two categories:

- *Governmental activities* - Funds set aside for specific future purposes are included here, including Bond repayment, capital improvements, replacements, and Bio-solid removal.
- *Business-Type activities* - Operation and maintenance of the sanitary sewer system is included here. The Authority charges fees to customers to cover the costs of providing this service.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds, not the Authority as a whole. The Board of Directors establishes funds as needed to help it control and manage money for particular purposes or to demonstrate that it is meeting legal responsibilities.

The Authority currently has two types of funds:

Governmental funds - The Authority's designated monies are included in governmental funds that focus on how money flows in and out and the balances remaining at year-end that are available for spending. Activity is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Authority that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the Authority's programs. We describe the relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Proprietary funds - Services for which the Authority charges customers a fee are reported in proprietary funds. Proprietary fund statements provide both long and short-term financial information. The Authority's enterprise fund, the Sewer Fund, is a type of proprietary fund.

The Authority as a Whole

The statement of net assets presents the perspective of the Authority as a whole. Table 1 provides a summary of the Authority's net assets as of December 31, 2005, in thousands of dollars.

TABLE 1	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
ASSETS						
Current and other assets	\$ 1,205	\$ 1,132	\$ 745	\$ 689	\$ 1,950	\$ 1,821
Capital Assets	---	---	9,089	9,272	9,089	9,272
TOTAL ASSETS	1,205	1,132	9,834	9,961	11,039	11,093
LIABILITIES						
Current liabilities	10	18	200	194	210	212
Long-term liabilities	26	34	1,080	1,270	1,106	1,304
TOTAL LIABILITIES	36	52	1,280	1,464	1,316	1,516
NET ASSETS						
Invested in capital assets, Net of related debt	---	---	7,819	7,822	7,819	7,822
Restricted	425	403	---	---	425	403
Unrestricted	744	677	735	675	1,479	1,352
TOTAL NET ASSETS	\$ 1,169	\$ 1,080	\$ 8,554	\$ 8,497	\$ 9,723	\$ 9,577

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

The Authority as a Whole (Continued)

In both the governmental and business-type activities, capital assets are depreciated on a straight-line basis.

The Authority's combined net assets were \$9.7 million at December 31, 2005. Capital assets (net of related debt) totaling \$7.8 million compares the historical cost, less depreciation, to the long-term debt used to finance the acquisition of those assets. In the governmental activities, the Authority currently has \$.4 million in restricted net assets. (Restricted net assets are reported separately to reflect any assets that cannot be used for daily operations due to legal constraints from debt covenants.) The \$1.5 million in combined unrestricted net assets reflects the accumulated results of all past years' operations.

The following table shows the revenue and expense activity during the current and past fiscal year and the change in net assets (in thousands of dollars), as reported in the statement of activities.

TABLE 2	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
REVENUE						
Program Revenue						
Charges for Services	\$ 24.7	\$ 13.8	\$ 1,023.6	\$ 981.4	\$ 1,048.3	\$ 995.2
General Revenue						
Property Taxes	---	---	---	---	---	---
State Entitlements	---	---	---	---	---	---
Interest Earnings	31.9	19.3	10.4	5.0	42.3	24.3
Other	89.5	169.1	-84.9	-164.8	4.6	4.3
TOTAL REVENUE	146.1	202.2	949.1	821.6	1,095.2	1,023.8
EXPENSES						
General Government	---	---	---	---	---	---
Public Safety	---	---	---	---	---	---
Public Works	---	---	---	---	---	---
Recreation	---	---	---	---	---	---
Interest On Long Term Debt	56.7	75.8	---	---	56.7	75.8
Depreciation (Unallocated)	---	---	---	---	---	---
Sewer	---	---	891.5	849.6	891.5	849.6
TOTAL EXPENSES	56.7	75.8	891.5	849.6	948.2	925.4
CHANGE IN NET ASSETS	\$ 89.4	\$ 126.4	\$ 57.6	\$ -28.0	\$ 147.0	\$ 98.4

Governmental Activities

The governmental activities experienced an increase in net assets of \$89,000. The primary reasons for this were transfers from the sewer fund in excess of capital expenditures.

Business-Type Activities

The Authority's business-type activity consists of the Sewer Fund. This fund experienced an increase in net assets of \$57,000 that can be attributed primarily to keeping expenditures modest and limiting transfers to the other funds. Usage fee revenues are growing slowly at the current rate as a result of new connections on the system.

The Authority's Funds

An analysis of the Authority's major funds follows the government-wide financial statements. As noted earlier, the Authority creates funds to help manage money for specific purposes and to demonstrate accountability for certain activities. The Authority's major governmental funds are the Debt Service Fund and the Special Revenue Funds.

At December 31, 2005, the governmental funds reported a combined fund balance of \$1,204,562, which is a decrease of \$79,861 from the previous year.

General Fund Budgetary Highlights

Over the course of the year, the Authority amends the budget in response to changing events. In this year, no budget amendments were made.

Capital Asset and Debt Administration

At the end of 2005, the Authority managed capital assets valued at over \$9 million including plant, equipment, and sewer lines. The most significant additions to the Authority's capital assets this year include system improvements.

Capital Assets Net of Accumulated Depreciation (Dollars are in thousands)						
	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Non-Depreciable Assets						
Land	\$ ---	\$ ---	\$ 508	\$ 508	\$ 508	\$ 508
Depreciable Assets						
Plant	---	---	8,566	8,735	8,566	8,735
Equipment	---	---	14	29	14	29
Total	\$ ---	\$ ---	\$ 9,088	\$ 9,272	\$ 9,088	\$ 9,272

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

Capital Asset and Debt Administration (Continued)

At year-end, the Authority had \$1,270,000 in outstanding Transportation Bonds remaining from a 1992 issuance in the amount of \$2,780,000. No new debt resulted from this year's activities. Employee compensated absences account for the Authority's remaining long-term debt.

Economic Factors and Next Year's Budgets and Rates

In the sewer fund, sewer payment revenue was increased to reflect the new usage rate effective January 1, 2006. Other revenue remains about the same. Funds in the sewer fund available for appropriation are \$1,107,000, which is approximately a one percent decrease over last year. The decrease is offset by fewer dollars transferred to other funds.

Expenditures are budgeted at approximately a one percent decrease from last year, most significantly because of fewer dollars transferred to other funds. The oxidation ditch addition to the treatment plant scheduled for this year is on schedule for the next budget. This project is funded in part by additional connection fees charged to the egg processing plant industry. The Authority conducted a connection fee rate study that resulted in an increase of the connection fee. These fees accumulate funds for future improvements that include upsizing a force main from the main pumping station to the treatment plant and possibly one additional storage lagoon.

Contacting the Authority's Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Supervisor, 13751 Harwood Road, Lake Odessa, MI 48849.

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,204,562	\$ 639,043	\$ 1,843,605
Due From Other Governmental Units	---	---	---
Accounts Receivable	666	106,472	107,138
Prepaid Expenditures	---	---	---
Total Current Assets	1,205,228	745,515	1,950,743
Non-Current Assets			
Capital Assets	---	14,171,523	14,171,523
Less: Accumulated Depreciation	---	-5,082,993	-5,082,993
Total Non-Current Assets	---	9,088,530	9,088,530
TOTAL ASSETS	\$ 1,205,228	\$ 9,834,045	\$ 11,039,273
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	\$ ---	\$ 9,937	\$ 9,937
Deferred Revenue	666	---	666
Accrued Interest	9,707	---	9,707
Bonds Payable, Due within One Year	---	190,000	190,000
Total Current Liabilities	10,373	199,937	210,310
Non-Current Liabilities			
Bonds Payable	---	1,080,000	1,080,000
Compensated Absences and Severance Pay	25,893	---	25,893
Total Non-Current Liabilities	25,893	1,080,000	1,105,893
TOTAL LIABILITIES	36,266	1,279,937	1,316,203
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	---	7,818,530	7,818,530
Restricted for Debt Service	425,476	---	425,476
Unrestricted	743,486	735,578	1,479,064
TOTAL NET ASSETS	1,168,962	8,554,108	9,723,070
TOTAL LIABILITIES AND NET ASSETS	\$ 1,205,228	\$ 9,834,045	\$ 11,039,273

See Accompanying Notes to Financial Statements

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF ACTIVITES

YEAR ENDED DECEMBER 31, 2005

		Program Revenues		Net <Expense> Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants	Governmental Activities	Business - Type Activities	Total
FUNCTIONS/PROGRAMS						
Governmental Activities						
General Government	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	---	---	---	---	---	---
Public Works	---	---	---	---	---	---
Recreational and Cultural	---	---	---	---	---	---
Interest on Long-Term Debt	56,728	24,657	---	-32,071	---	-32,071
Depreciation (Unallocated)	---	---	---	---	---	---
Total Governmental Activities	56,728	24,657	---	-32,071	---	-32,071
Business-Type Activities						
Sewer	891,502	1,023,650	---	---	132,148	132,148
Total Activities	\$ 948,230	\$ 1,048,307	\$ ---	\$ -32,071	\$ 132,148	\$ 100,077
General Revenue						
Taxes						
Property Taxes, Levied for General Operations				\$ ---	\$ ---	\$ ---
Property Taxes, Levied for Debt Service				---	---	---
State of Michigan Aid, Unrestricted				---	---	---
Interest Earnings				31,877	10,401	42,278
Transfers				84,895	-84,895	---
Other				4,627	---	4,627
Total General Revenue				121,399	-74,494	46,905
CHANGE IN NET ASSETS				89,328	57,654	146,982
NET ASSETS - BEGINNING OF YEAR				1,079,634	8,496,454	9,576,088
NET ASSETS - END OF YEAR				\$ 1,168,962	\$ 8,554,108	\$ 9,723,070

See Accompanying Notes to Financial Statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2005

	Debt	Special Revenue	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 435,183	\$ 769,379	\$ 1,204,562
Accounts Receivable	666	---	666
Due from Other Governmental Units	---	---	---
Due from Other Funds	---	---	---
Prepaid Expenditures	---	---	---
TOTAL ASSETS	\$ 435,849	\$ 769,379	\$ 1,205,228
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---
Deferred Revenue	666	---	666
TOTAL LIABILITIES	666	---	666
FUND BALANCES			
Reserved for Debt Service	435,183	---	435,183
Unreserved, Designated	---	769,379	769,379
Unreserved and Undesignated	---	---	---
TOTAL FUND BALANCES	435,183	769,379	1,204,562
TOTAL LIABILITIES AND FUND BALANCES	\$ 435,849	\$ 769,379	\$ 1,205,228
TOTAL GOVERNMENTAL FUND BALANCES			\$ 1,204,562
Amounts reported for governmental activities in the statement of net assets are different because:			
Long-term liabilities are not due and payable in the current period and are not reported in the fund:			
Compensated absences			-25,893
Accrued interest is not included as a liability in governmental funds			<u>-9,707</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			<u>\$ 1,168,962</u>

See Accompanying Notes to Financial Statements.

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2005

	Debt	Special Revenue	Totals
REVENUE			
Property Taxes	\$ ---	\$ ---	\$ ---
State Grants	---	---	---
Charges for Services	15,657	9,000	24,657
Interest	10,998	20,879	31,877
Other	254	4,373	4,627
TOTAL REVENUE	26,909	34,252	61,161
EXPENDITURES			
General Government	---	---	---
Public Safety	---	---	---
Public Works	---	---	---
Recreational and Cultural	---	---	---
Debt Service	66,195	---	66,195
Capital Outlay	---	---	---
TOTAL EXPENDITURES	66,195	---	66,195
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-39,286	34,252	-5,034
OTHER FINANCING SOURCES			
Operating Transfers In	241,000	188,000	429,000
Operating Transfers Out	-180,000	-164,105	-344,105
TOTAL OTHER FINANCING SOURCES	61,000	23,895	84,895
NET CHANGE IN FUND BALANCES	21,714	58,147	79,861
FUND BALANCES - BEGINNING OF YEAR	413,469	711,232	1,124,701
FUND BALANCES - END OF YEAR	\$ 435,183	\$ 769,379	\$ 1,204,562

See Accompanying Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 79,861**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense

Capital Outlay

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

1,276

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds

8,191

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 89,328

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF NET ASSETS

PROPRIETARY FUND

DECEMBER 31, 2005

	<u>Sewer Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 639,043
Accounts Receivable	106,472
Prepaid Expenses	<u>---</u>
Total Current Assets	<u>745,515</u>
Non-Current Assets	
Capital Assets	<u>9,088,530</u>
TOTAL ASSETS	<u>\$ 9,834,045</u>
 LIABILITIES	
Current Liabilities	
Current Portion of Bonds Payable	\$ 190,000
Accounts Payable	<u>9,937</u>
Total Current Liabilities	199,937
Long-Term Liabilities	
Bonds Payable - Long-Term	<u>1,080,000</u>
TOTAL LIABILITIES	<u>1,279,937</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	7,818,530
Restricted for Debt Service	<u>---</u>
Unrestricted	<u>735,578</u>
TOTAL NET ASSETS	<u>\$ 8,554,108</u>

See Accompanying Notes to Financial Statements.

FOR THE YEAR ENDED DECEMBER 31, 2005

Karl L. Drake, P.C.

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF CASH FLOW PROPRIETARY FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sewer Fund</u>
CASH FLOW FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 988,952
Cash Payments for Goods and Services	-278,784
Cash Payments to Employees	-188,848
Cash Payments for Employee Benefits	<u>-80,579</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>440,741</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers <to> from Other Funds	<u>-84,895</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond Principal Payments	<u>-180,000</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Receipts of Interest and Dividends	10,401
Sale of Assets	---
Purchase of Assets	<u>-164,106</u>
NET CASH PROVIDED <USED> BY INVESTING ACTIVITIES	<u>-153,705</u>
NET INCREASE IN CASH	22,141
CASH - BEGINNING OF YEAR	<u>616,902</u>
CASH - END OF YEAR	<u><u>\$ 639,043</u></u>
RECONCILIATION OF OPERATING INCOME <LOSS> TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	132,148
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	347,477
Decrease <Increase> in Accounts Receivable	-34,698
Decrease <Increase> in Prepaid Expenses	---
Increase <Decrease> in Accounts Payable	<u>-4,186</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 440,741</u></u>

See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Articles of Incorporation were adopted by the incorporating municipal corporations for the purpose of creating an authority under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, on January 20, 1980.

The name of this Authority is Lakewood Wastewater Authority. The municipal office of the authority is located at 13751 Harwood Road, Lake Odessa, Michigan.

The names of the municipal corporations creating this authority are the Township of Woodland, and the Village of Woodland, located in Barry County, State of Michigan, and the Township of Odessa and the Village of Lake Odessa, located in the County of Ionia, State of Michigan, which are designated as the constituent municipalities.

In the event that Federal grants or loans of any combination are received to finance any portion of the costs or proposed improvements and in the event the authority issues revenue bonds pursuant to Act 233, Public Acts of Michigan, 1955, as amended, the authority will establish rates and charge for service in any contract entered into pursuant to Act 233 sufficient to satisfy provisions of the act under which revenue bonds are issued.

The purpose of the Authority is to acquire, construct, operate, maintain, administer and manage any sewage disposal system and treatment plant constructed or to be constructed for the benefit of the constituent municipalities, in accordance with the authorization of Act 232, Public Acts of Michigan, 1955, as amended, or pursuant to any other legal authority, provided, however, that pre-existing systems and treatment plants may be operated in whole or in part by a constituent municipality and such municipality may contract with the authority for the purpose of obtaining services of sewage disposal systems including treatment plants, mains, interceptors, trunks, force mains or other sanitary sewer improvements to be constructed in the future either as new facilities or additions, extensions, enlargements or improvements to existing facilities pursuant to contract between the constituent municipality and the authority.

The governing body of the Authority is a commission, which is composed of six commissioners, three appointed by the Village of Lake Odessa, one appointed by the Township of Odessa, one appointed by the Village of Woodland, and one appointed by the Township of Woodland.

The commissioners are appointed for a term of three years, with the term of office commencing on January 1, of the appropriate year and ending on December 31, of the appropriate year.

LAKEWOOD WASTEWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. REPORTING ENTITY (CONTINUED)

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Authority are the Capital Improvement Fund, Replacement Fund, and Bio-Solids Fund.

Debt Service Funds - Debt Service Funds are used for the collection of revenues and the payment of bonded debt principal and interest. The Authority maintains one debt service fund called the Sewage Disposal Plant Debt Fund.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

LAKEWOOD WASTEWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. BASIS OF PRESENTATION (CONTINUED)

PROPRIETARY FUNDS (CONTINUED)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for usage and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

C. BUDGETS AND BUDGETARY ACCOUNTING

The Debt Service Fund and Special Revenue Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted at the functional level.

D. CASH EQUIVALENTS

The Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

E. FINANCIAL INSTRUMENTS

The Authority does not require collateral to support financial instruments subject to credit risk.

F. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

G. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

H. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Plant and System	10-50 years
Vehicles	5-10 years
Other equipment	3-20 years

I. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

K. RISK MANAGEMENT

The Authority is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

LAKEWOOD WASTEWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority is in compliance with State law regarding their cash deposits.

The Authority maintains all of its cash deposits at two banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured & Uncollateralized	1,643,605	1,649,326
Total Deposits	<u>\$ 1,843,605</u>	<u>\$ 1,849,326</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at December 31, 2005.

NOTE 4 - DUE TO/FROM OTHER FUNDS

There were no due to/due from other funds at December 31, 2005.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Authority's Business-type activities was as follows:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance December 31, 2005</u>
Assets not being depreciated:				
Land	\$ 507,804	\$ ---	\$ ---	\$ 507,804
Capital assets being depreciated:				
Plant and Sewer System	13,405,678	163,207	---	13,568,885
Equipment	195,451	899	101,516	94,834
Subtotal	13,601,129	164,106	101,516	13,663,719
Accumulated depreciation:				
Plant and Sewer System	4,670,625	331,987	---	5,002,612
Equipment	166,407	15,490	101,516	80,381
Subtotal	4,837,032	347,477	101,516	5,082,993
Net capital assets being depreciated	8,764,097	-183,371	---	8,580,726
Net capital assets	\$ 9,271,901	\$ -183,371	\$ ---	\$ 9,088,530

LAKEWOOD WASTEWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - BONDS PAYABLE

On February 4, 1992 the Authority issued revenue bonds totaling \$2,780,000. The expenses associated with the bonds were dated February 1, and matured on November 1 of the years 1992 through 2011, with interest payable on each May 1 and November 1 commencing May 1, 1992.

Interest rates varied from 5.1% to 7.8%. Bonds payable after 2001 were refunded as part of a new bond issue dated November 1, 1998. Bonds were issued totaling \$2,005,000. Interest is payable on May 1st and November 1st of each year, with interest rates varying from 3.5% to 4.8%. Principal payments are payable on November 1st each year. Principal and interest are payable as follows:

	Principal	Interest	Total
2006	\$ 190,000	\$ 58,245	\$ 248,245
2007	200,000	49,980	249,980
2008	200,000	41,080	241,080
2009	215,000	31,980	246,980
2010	230,000	22,090	252,090
2011	235,000	11,280	246,280
	<u>\$ 1,270,000</u>	<u>\$ 214,655</u>	<u>\$ 1,484,655</u>

NOTE 7 - RETIREMENT SYSTEM

The Authority has a defined contribution pension plan covering substantially all employees. Contributions are based on 3 1/2 percent of each employee's regular salary and wages. The total pension payments for 2005 were \$5,416. Total qualifying wages were \$154,743.

NOTE 8 - SPECIAL ASSESSMENT RECEIVABLE

When it began operating, the Authority set up a connection charge for 242 new users of \$2,500 each which could be paid in total at once or at a rate of \$125 plus interest each year until paid off. The amount not yet received is recorded as deferred revenue and recognized when received. This amount was \$666 at December 31, 2005.

NOTE 9 - BUDGETARY ACCOUNTING

During the year ended December 31, 2005, the Authority incurred no expenditures that were in excess of the amounts appropriated

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUND

The Authority maintains one Enterprise Fund providing sewer services. Segment information for the year ended December 31, 2005, is as follows:

Operating Revenues	\$ 1,034,051
Operating Expenses Before Depreciation	544,025
Depreciation	347,477
Operating Income	142,549
Net Earnings	57,654
Total Assets	9,834,045
Long-Term Debt - Payable From Operating Revenue	1,270,000
Total Net Assets	\$ 8,554,108

NOTE 11 - RISK MANAGEMENT AND LITIGATION

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Authority has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the Enterprise Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At December 31, 2005, no claims exist, and no provision has been entered into the accounting records.

LAKEWOOD WASTEWATER AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - DEBT FUND

YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
State Grants	---	---	---	---
Charges for Services	4,000	4,000	15,657	11,657
Interest	6,000	6,000	10,998	4,998
Other	---	---	254	254
Transfers In	241,000	241,000	241,000	---
TOTAL REVENUE	251,000	251,000	267,909	16,909
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	71,000	71,000	66,195	4,805
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	180,000	180,000	180,000	---
TOTAL EXPENDITURES	251,000	251,000	246,195	4,805
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	---	---	21,714	21,714
BUDGETARY FUND BALANCE - JANUARY 1, 2005	413,469	413,469	413,469	---
BUDGETARY FUND BALANCE - DECEMBER 31, 2005	\$ 413,469	\$ 413,469	\$ 435,183	\$ 21,714

LAKEWOOD WASTEWATER AUTHORITY

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUNDS

YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
State Grants	---	---	---	---
Charges for Services	2,000	2,000	9,000	7,000
Interest	3,200	3,200	20,879	17,679
Other	4,000	4,000	4,373	373
Transfers In	188,000	188,000	188,000	---
TOTAL REVENUE	197,200	197,200	222,252	25,052
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	622,700	622,700	164,105	458,595
TOTAL EXPENDITURES	622,700	622,700	164,105	458,595
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-425,500	-425,500	58,147	483,647
BUDGETARY FUND BALANCE - JANUARY 1, 2005	711,232	711,232	711,232	---
BUDGETARY FUND BALANCE - DECEMBER 31, 2005	\$ 285,732	\$ 285,732	\$ 769,379	\$ 483,647

OTHER SUPPLEMENTAL INFORMATION

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE BALANCE SHEET SEWAGE DISPOSAL PLANT DEBT FUND

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 435,183	\$ 413,469
Accounts Receivable	---	---
Special Assessment Receivable	<u>666</u>	<u>7,323</u>
TOTAL ASSETS	<u>\$ 435,849</u>	<u>\$ 420,792</u>
 LIABILITIES AND FUND BALANCE		
Deferred Revenue	\$ 666	\$ 7,323
Fund Balance	<u>435,183</u>	<u>413,469</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 435,849</u>	<u>\$ 420,792</u>

**COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES,
TRANSFERS AND FUND BALANCE
SEWAGE DISPOSAL PLANT DEBT FUND**

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUE		
Connection Charges	\$ 15,657	\$ 10,219
Interest	10,998	7,407
Penalties	210	48
Miscellaneous	44	---
TOTAL REVENUE	<u>26,909</u>	<u>17,674</u>
 EXPENDITURES		
Interest on Bond Issue	65,895	72,535
Fees and Bank Charges	300	300
TOTAL EXPENDITURES	<u>66,195</u>	<u>72,835</u>
 EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	 -39,286	 -55,161
 TRANSFERS IN TRANSFERS <OUT>	 241,000 <u>-180,000</u>	 247,000 <u>-160,000</u>
 EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES AND TRANSFERS	 21,714	 31,839
 FUND BALANCE - BEGINNING OF YEAR	 <u>413,469</u>	 <u>381,630</u>
 FUND BALANCE - END OF YEAR	 <u><u>\$ 435,183</u></u>	 <u><u>\$ 413,469</u></u>

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE BALANCE SHEET REPLACEMENT FUND

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 188,749	\$ 299,551
Certificates of Deposit	<u>102,078</u>	<u>---</u>
TOTAL ASSETS	<u>\$ 290,827</u>	<u>299,551</u>
FUND BALANCE	<u>\$ 290,827</u>	<u>\$ 299,551</u>

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, TRANSFERS AND FUND BALANCE REPLACEMENT FUND

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUE		
Interest	\$ 7,774	\$ 5,215
EXPENDITURES	<u>---</u>	<u>---</u>
EXCESS OF REVENUE OVER EXPENDITURES	7,774	5,215
TRANSFERS IN	---	200,000
TRANSFERS <OUT>		
Plant	-15,599	-156,694
Equipment	-899	---
Other	<u>---</u>	<u>---</u>
EXCESS OF REVENUE AND TRANSFERS OVER <UNDER> EXPENDITURES AND TRANSFERS	-8,724	48,521
FUND BALANCE - BEGINNING OF YEAR	<u>299,551</u>	<u>251,030</u>
FUND BALANCE - END OF YEAR	<u>\$ 290,827</u>	<u>\$ 299,551</u>

**COMPARATIVE BALANCE SHEET
CAPITAL IMPROVEMENT FUND**

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 229,480	\$ 303,736
Certificates of Deposit	<u>102,078</u>	<u>---</u>
TOTAL ASSETS	<u>331,558</u>	<u>303,736</u>
LIABILITIES AND FUND BALANCE		
Escrow Payable	---	---
Fund Balance	<u>331,558</u>	<u>303,736</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 331,558</u>	<u>\$ 303,736</u>

**COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES,
TRANSFERS AND FUND BALANCE
CAPITAL IMPROVEMENT FUND**

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUE		
Connection Charges	\$ 9,000	\$ 3,568
Interest	9,056	5,124
Land Rent	<u>4,373</u>	<u>4,250</u>
TOTAL REVENUE	<u>22,429</u>	<u>12,942</u>
EXPENDITURES	<u>---</u>	<u>---</u>
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES	22,429	12,942
TRANSFERS IN	153,000	100,000
TRANSFERS <OUT>	<u>-147,607</u>	<u>-100,484</u>
EXCESS OF REVENUE AND TRANSFERS OVER <UNDER> EXPENDITURES AND TRANSFERS	27,822	12,458
FUND BALANCE - BEGINNING OF YEAR	<u>303,736</u>	<u>291,278</u>
FUND BALANCE - END OF YEAR	<u>\$ 331,558</u>	<u>\$ 303,736</u>

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE BALANCE SHEET BIO-SOLIDS FUND

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 4,085	\$ 107,945
Certificates of Deposit	<u>142,909</u>	<u>---</u>
TOTAL ASSETS	<u>146,994</u>	<u>107,945</u>
 FUND BALANCE	 <u>\$ 146,994</u>	 <u>\$ 107,945</u>

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, TRANSFERS AND FUND BALANCE BIO-SOLIDS FUND

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUE		
Interest	\$ 4,049	\$ 1,582
EXPENDITURES	<u>---</u>	<u>---</u>
EXCESS OF REVENUE OVER EXPENDITURES	4,049	1,582
TRANSFERS IN	35,000	35,000
TRANSFERS <OUT>	<u>---</u>	<u>---</u>
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES AND TRANSFERS	39,049	36,582
FUND BALANCE - BEGINNING OF YEAR	<u>107,945</u>	<u>71,363</u>
FUND BALANCE - END OF YEAR	<u>\$ 146,994</u>	<u>\$ 107,945</u>

COMPARATIVE BALANCE SHEET SEWER FUND

DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash In Bank		
General operating	\$ 625,325	\$ 580,351
Payroll account	13,718	36,551
Certificate of deposit	---	---
Total Cash In Bank	639,043	616,902
Receivables		
Due For Sewer Charges And Penalties	106,472	71,774
TOTAL CURRENT ASSETS	745,515	688,676
PROPERTY, PLANT AND EQUIPMENT		
Land	507,804	507,804
Plant	13,568,885	13,405,678
Equipment	94,834	195,451
Less Provision for Depreciation	-5,082,993	-4,837,032
TOTAL PROPERTY, PLANT AND EQUIPMENT	9,088,530	9,271,901
TOTAL ASSETS	\$ 9,834,045	\$ 9,960,577
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Accounts Payable	\$ 9,937	\$ 14,123
Bonds Payable	1,270,000	1,450,000
TOTAL LIABILITIES	1,279,937	1,464,123
RETAINED EARNINGS	8,554,108	8,496,454
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 9,834,045	\$ 9,960,577

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS SEWER FUND

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
REVENUE		
Charges for Service	\$ 782,084	\$ 795,204
Interest	10,401	5,049
Penalties and Extra Strength	241,556	186,186
Miscellaneous	10	50
TOTAL REVENUE	1,034,051	986,489
OPERATING EXPENSES		
Compensation	188,848	166,215
Payroll Taxes	14,390	12,807
Benefits	60,773	50,461
Insurance	31,418	29,310
Pension Plan	5,416	5,071
Workers Comp.	6,054	4,767
Telephone	10,198	10,116
Professional Fees	5,628	5,595
Office and Computer Supplies	5,170	3,822
Laboratory Supplies and Analysis	25,676	28,235
Gas and Oil	11,464	6,752
Repairs and Maintenance	70,031	75,678
Utilities	105,084	103,008
Advertising and Printing	390	543
Education	2,409	1,586
Safety	647	70
Miscellaneous	429	208
Depreciation	347,477	345,385
TOTAL OPERATING EXPENSES	891,502	849,629
NET INCOME BEFORE TRANSFERS	142,549	136,860
TRANSFERS IN	344,105	417,179
TRANSFERS <OUT>	-429,000	-582,000
INCREASE <DECREASE> IN RETAINED EARNINGS	57,654	-27,961
RETAINED EARNINGS - BEGINNING OF YEAR	8,496,454	8,524,415
RETAINED EARNINGS - END OF YEAR	\$ 8,554,108	\$ 8,496,454

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Lakewood Wastewater Authority

We have audited the financial statements of Lakewood Wastewater Authority as of and for the year ended December 31, 2005, and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lakewood Wastewater Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakewood Wastewater Authority's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of Board of Directors, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.
Certified Public Accountant

January 20, 2006